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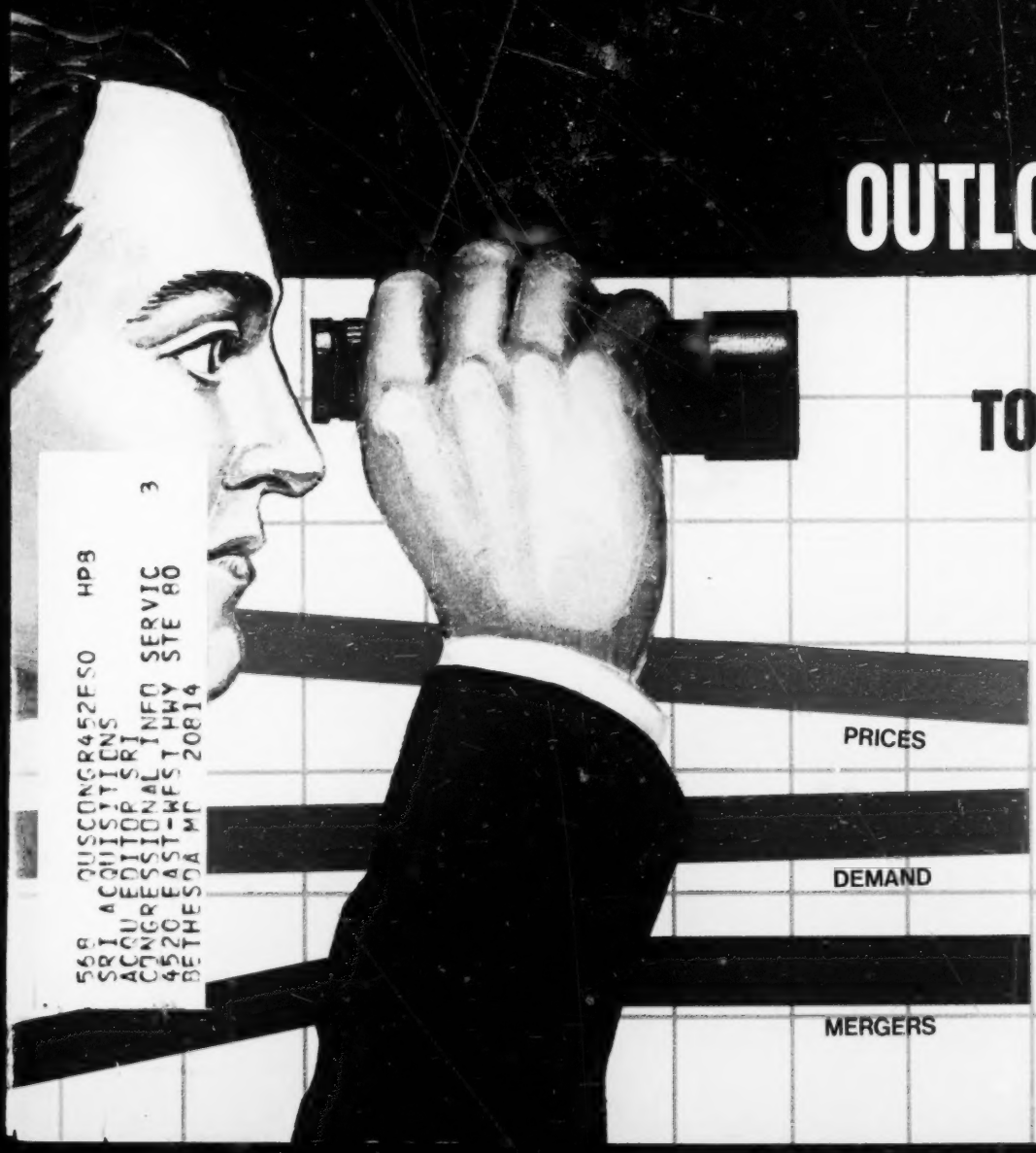
Shell Jobber Bets $36-Million on Stores
How Video Rental Shows Jobber Profit
Phillips Fight: One-Brand Jobber at Risk?

NPN

National Petroleum News



OUTLOOK '85:

ANOTHER TOUGH YEAR AHEAD

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NATIONAL PETROLEUM NEWS

JANUARY 1985 VOL. 77 NO. 1

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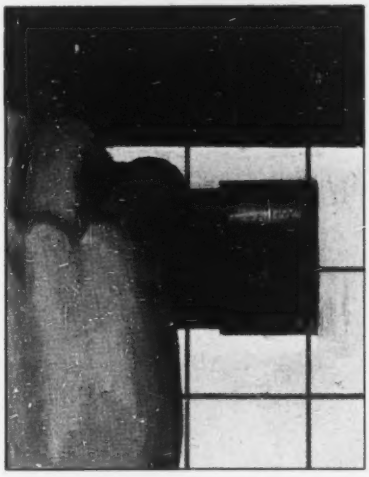


With too much of everything on tap or readily available—crude, products, refineries, storage capacity and transport included—it's no wonder many oil marketers are looking at 1985 with some apprehension. They sense—probably correctly—that this year will be as demanding as the one just past. **Page 34**

Cover art by Anne Feiza, Chicago

Slim retail gasoline margins haven't daunted Texas jobber Kelly Broach's ambitious plans for expansion. In fact, $36-million says the multi-brand jobber can make a go of another 90 pumper/C-stores 10 years from now. **Page 42**

An Exxon jobber in Reno has found a retail tie-in which he expects will provide profits of at least $48,000 a year at some of his 10 C-store outlets. It's the video cassette movie business. **Page 48**

• TRENDS

Pickens/Phillips Struggle Imperils One-Brand Jobbers

As yet another big and bloody takeover battle began taking shape last month, oil marketers—and especially traditional-type branded jobbers—had to begin wondering just how they will fit into an industry undergoing its most dramatic restructuring of all time.

Can the traditional concept of "brand loyalty" between oil companies and jobbers survive the restructuring?

This key question was being raised after T. Boone Pickens Jr., the corporate raider who earlier helped push companies like Cities Service and Gulf Oil on the road to virtual oblivion, announced that his new "takeover" target was Phillips Petroleum Co.

Pickens, chairman of Mesa Petroleum Co., Amarillo, Texas, said Mesa and Wagner & Brown, a West Texas-based oil and gas company, had formed a partnership for the purpose of gaining control of Phillips.

This would be accomplished with an initial tender offer for 15 million shares of Phillips' stock at $60 a share, with this offer perhaps later extended for up to 23 million shares. The Mesa group's intention was to acquire up to 20.6% of Phillips' stock and replace Phillips' 16 directors with four of its own, according to information filed with the Securities and Exchange Commission.

Many marketers and financial analysts, however, suspected that Pickens was trying to set in motion a replay of last year's struggle for Gulf Oil which eventually forced Gulf into a merger with Chevron.

Phillips' first official reaction was to obtain a temporary restraining order to block the Mesa group's tender offer, claiming it violated an agreement between Mesa and General American Oil prohibiting such takeover attempts. Phillips acquired General American in 1983 after Mesa had dropped a hostile takeover of that company.

The defensive legal moves then were reinforced by Phillips assembling a $5-billion line of credit. Observers late last month believed the company might buy back half its shares for about $70 each to pacify Phillips shareholders attracted by Mesa partners' $60 offer. Some speculated Phillips might apply the money in a leveraged buyout to take the company private.

With these several legal and financial maneuverings swinging back and forth in late December, other observers felt Phillips quickly might acquire a second-tier oil company or even launch a counter-offensive bid for Mesa Petroleum. Still others wondered if Phillips had a "white knight" awaiting just over the next hill.

Whatever the eventual outcome, some marketers see this latest takeover attempt as more bad news for their segment of the industry. As one trade association executive put it: "The dinosaurs are mating again. Even the most efficient marketer can be adversely affected. Nobody knows what the outcome will be."

The announcement that Pickens had chosen Phillips as his next target had branded jobbers, in particular, nervous and concerned.

Phillips, said Petroleum Marketers Assn. of America immediate past-president Jack Griffith, has long supplied "hundreds of independent marketers." Pickens, he noted, starts takeover attempts but rarely completes them. He raises "legitimate questions" about oil company management and profits when he starts his takeover campaigns, said Griffith, but the end result has been the target companies merging with other large companies.

Griffith and Phillip Chisholm, PMAA's executive vice president, express concern that "jobber-oriented" companies are being gobbled up in the mergers by companies which may lean more toward non-jobber marketing. If Phillips is driven into a merger with another major which, say, favors direct-retail operations, the results could be catastrophic for jobbers.

Phillips, as both Griffith and Chisholm point out, is the most "jobber-oriented" marketer of all the majors. It depends on its network of branded jobbers to move 90% or more of the products turned out by its three refineries. Although ranked about eighth among the majors in total assets, Phillips' 1,751 branded gasoline and fuel oil jobbers as of Jan. 1, 1984, was second only to Amoco's 1,923, according to the *NPN Factbook*.

With Phillips under seige, while Gulf and Getty are being absorbed by Chevron and Texaco, Griffith has this observation about branded jobbers trying to carry on the tradition of representing only one company and one brand:

"The biggest damn fool in the industry today," he says, "is the branded jobber who has all his eggs in one basket."

—Marvin Reid

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

OCTOBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.196	$1.127	$1.209	$1.365
Regions:				
Northeast	1.192	1.114	1.190	1.337
North Central	1.202	1.148	1.225	1.406
South	1.182	1.105	1.197	1.351
West	1.211	1.135	1.224	1.405

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	11/30/84	12/2/83
Gasoline (total)	243,133	236,697
Gasoline (unleaded)*	111,761	99,899
Jet Kerosine	39,129	36,722
Distillates	160,707	165,581
Residual	50,721	53,876

**Included in gasoline total.*
Source: American Petroleum Institute.

that the attendant couldn't see the misfueling," he says. "We're all for the Clean Air Act but we just can't be responsible for people breaking the law," says Schade. He adds he's afraid the misfueling law could apply to his unattended cardlock facilities as well.

Richard Kozlowski, EPA's director of field operations, declined comment while the case was still pending. Because the EPA conducts about 20,000 such investigations each year—600 in November alone, Kozlowski said he didn't have firsthand knowledge of the Gem case.

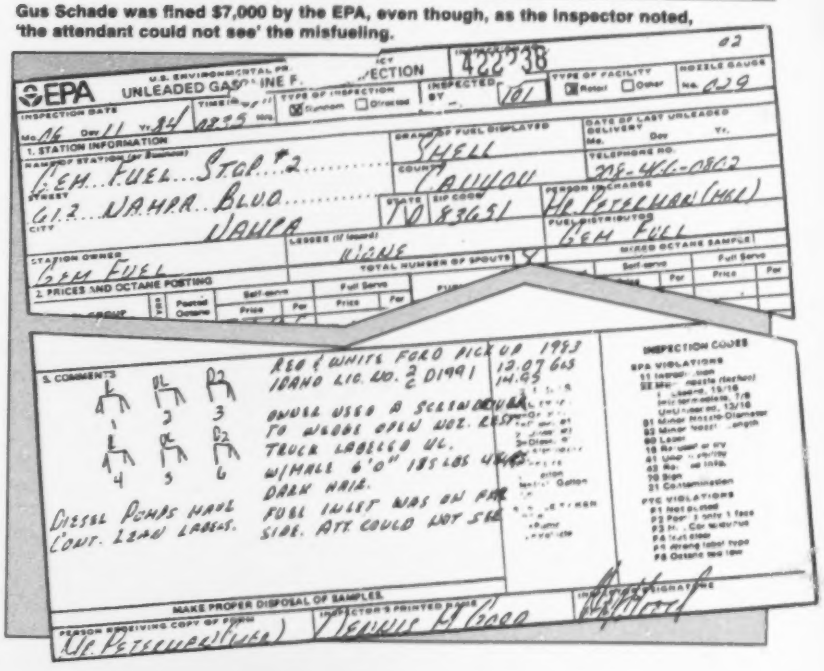
Schade says after his attorney wrote a letter to Western division EPA attorney Judith A. Graham, the agency informed him that it may take the matter to court. After a notice of violation is sent, the accused has 90 days to discuss the charges with EPA and settle the fine, says Kozlowski. After that period, he says, EPA may conduct a discovery search of a marketer's records for evidence of further violations.

He adds, however, that if a marketer makes an effort to correct a problem or takes steps to make another violation less likely, fines may reduced by as much as 40%.

Meanwhile, Senator Symms has indicated in a letter to Schade that he is in "total sympathy" with the marketer over the difficulties of policing motorists, calling the citation "outrageous."

"It's not just the money," contends Schade. "What if we had inspectors at all of our outlets? It's not likely, but if inspectors saw violations at all of my 28 stations, they could shut us down for good."

Gus Schade was fined $7,000 by the EPA, even though, as the inspector noted, 'the attendant could not see' the misfueling.



Interest Fades in Atlantic Waters As Possible Source of Oil or Gas

It might sound strange to characterize the Atlantic Ocean as nothing more than one big dry hole but that's the way it's going to be until someone gets real lucky with a drill bit off the East Coast—if ever.

Shell, the last of the oil companies that have been trying since 1978 to find some oil or gas in the Atlantic's continental shelf waters, gave up in early November. Its ninth consecutive dry hole was another multi-million-dollar disaster [*NPN*—Sept. '84, p22].

The industry has drilled a total of 40 holes in the Atlantic, from the midlands off the New Jersey coast to the fishing banks off New England. All but five were dusters. The others had some showings of oil or gas but not in sufficient quantities to warrant development of the strike.

It has been an expensive adventure—more than $2-billion in lease costs and roughly another billion or so in drilling and related costs.

If, as the oil companies often say, they only net 2¢ to 3¢ gal. in terms of gasoline, think how many gallons would have to be sold to generate that much capital for investment—maybe a billion to a billion-and-a-half gallons!

Oil companies began their Atlantic operation in 1978 with their first penetrations in the Baltimore Canyon about 100 miles southeast of Atlantic City, N.J.

Twenty-eight dry holes later, they shifted their attention northward to the Georges Bank off New England. Here again, eight holes in the sea floor turned up nothing of interest.

Shell, in conjunction with several partners, initiated another deep water shot in the dark in August 1983 in the Wilmington Canyon, pledging itself to drill three to five wells in record-breaking depths at estimated costs of $30-million to $40-million each.

One by one, they wound up as nothing more than holes in the ground.

Shell did set two depth records, however. Its first well was in 6,800 feet of water, and its third in 6,952 feet. All four wells went down to the 16,000- to 17,000-ft. levels before abandonment.

Utah jobber purchases Conoco's lube facility

A Utah Conoco jobber is planning to expand his customer base with the transfer of a North Salt Lake City lube oil distribution center from Conoco to his firm.

Mike Eades, president of Olympus Oil, Salt Lake City, says that his firm will continue to supply some 70% of the state's jobbers as it has for seven years. Another company spokesman says that Olympus has now started to supply jobberships in Wyoming and Nevada as well.

Olympus has leased half of the facility for warehouse space since 1977. So, when Conoco decided that the distribution facility was surplus for the company, Olympus was it's logical choice to buy it.

Several competing Conoco jobbers have expressed dissatisfaction, although Conoco says that most area jobbers favor the move and points out that it still offers product directly at its Ponca City, Okla., terminal.

Eades says that he believes that most of the complaints have come from two jobberships, one in Salt Lake City, the other outside of the metropolitan area. "We're not looking to compete with them, but if they're not moving product, we can."

Here's an informal boxscore of the Atlantic operations:

Baltimore Canyon:

	No. of holes	Est. Costs (millions of $)
Exxon	7	$116.9
Texaco	5	71.1
Tenneco	3	33.0
Mobil	3	30.0
Shell	3	25.2
Gulf	2	19.8
Houston Oil & Minerals	2	15.5
Murphy	1	13.0
Conoco	1	4.0
Georges Bank:		
Shell	2	61.0
Mobil	2	49.0
Exxon	2	27.0
Tenneco	1	25.0
Conoco	1	17.5
Wilmington Canyon:		
Shell	4	107.0

There's still another Atlantic Ocean frontier to be explored. That's off the coast of Georgia and Florida. It was never considered the hottest of prospects, so don't be too surprised if that one is really slow getting off the ground.

To the North, there have been big strikes in the Atlantic southeast of Newfoundland. The Hibernian field up there has yet to be fully dimensioned, it's that big.

The U.S. Geologic Service still thinks there are billions of barrels of oil and trillions of cubic feet of gas in the Atlantic waters off the U.S. coast. All someone has to be is lucky—very, very lucky—to find it, in the face of what has happened so far.

Ultramar expands with Augsbury annexation

Ultramar Canada Ltd., which penetrated the Northeast's fuel oil market with its surprise purchase of Pittston Petroleum [*NPN*—May '84, p27], has expanded its U.S. horizons with the acquisition of Augsbury Corp., of Ogdensburg, N.Y. [*NPN*—Dec. '84, p17].

Where Pittston and Augsbury are concerned, they're not in the same ballpark, naturally. Pittston was a $100-million affair, Augsbury $6.3-million. But Augsbury has been an independent in northern New York for 127 years, and within hours of the approval of the acquisition by the federal court's bankruptcy division, the name had been changed to Ultramar, Northern Division. New letterheads containing the notation, "formerly The Augsbury Corp.," were ready to handle the announcement.

The buyout included most of Augsbury's 20,000 fuel oil accounts, gasoline stations (44) and convenience stores, as well as its bulk plants and terminals. Augsbury normally handles about 100-million gal. a year, mostly in the Plattsburgh, Massena, Lake Placid, Saranac Lake, Brewerton, Oswego and Syracuse areas.

Ultramar, headquartered in Don Mills, Ontario, just outside of Toronto, is a fully integrated company operating on a global basis. Its U.S. headquarters are in Pittston Petroleum's old set-up in Montvale, N.J.

Florida court kills ban on ethanol imports

Florida's State Supreme Court has overturned a new state law that would have excluded foreign-made ethanol from benefiting from the 4¢ gal. gasohol tax break.

The ban was aimed primarily at Brazilian imports which had been flowing into the state. The decision by the high court was unanimous. It came down quickly—little more than a week after both sides had presented their oral arguments.

The tax break declines to 2¢ gal. in July of next year.

Time runs out on Pa. below-cost bill

It's back to the drawing board for the retailers in Pennsylvania fighting for the past several years to get either a divorcement or a below-cost selling bill in the Commonwealth.

Their last chance went down the drain in late November when the state legislature adjourned and all pending bills and proposals died with it [*NPN*—Nov. '84, p15].

Dealers will have to start from square one again in a brand new legislature which convenes early this month.

Both the House and the Senate lopsidedly approved a divorcement bill in 1984, but it was so plastered with amendments that it went to a conference committee, which, after months of inaction, finally came up with a completely re-done substitute that focused on below-cost selling only.

Here again, the House and the Senate lovingly endorsed the compromise and sent it along to the governor. He surprised one and all by vetoing the measure with a strong message that called it anti-consumer and not balanced in its implementation.

That's when time began to run out.

The Legislature, in recess at the time, couldn't get another crack at it or an override possibility until after Nov. 19. Then, the calendar, the Thanksgiving Holiday weekend and the absolute lack of desire on the part of the legislators to become embroiled in a bitter override fight in the waning minutes of the legislative session were a bit too much.

Proponents signaled the governor that they would like to offer a compromise if he would accept an override, but he and his lieutenants and legislative lobbyists turned on all the pressure they could to stave off any further action.

Hess adds N.J. units to mystery store total

Now that it has made the plunge, Amerada Hess apparently thinks that its minimart C-stores are the real thing.

In its third-quarter report, the company says it has added several more units in New Jersey to the ones it has in Pennsylvania, New York, South Carolina, Georgia and Florida.

Hess, which rarely, if ever, tells anyone anything more than it absolutely has to, would not say how many C-stores it now has in operation.

The third-quarter report indicated the independent is tinkering around with electronic debit systems at some of its stations. It says a number of stations have been modernized and rebuilt and some have data collection systems transmitting sales and other data to the corporation's control center.

NEFI saluted by feds for energy innovations

New England Fuel Institute has been given a National Energy Award for the many conservation programs and innovations it has come up with in recent years.

NEFI was recommended for the award by Massachusetts governor Michael Dukakis, who gave the Institute the state's "Technology Transfer '80's Award" in late October. NEFI was one of six winners in a field of 1,000 competitors.

company officials consider flying both flags at retail outlets for a while as motorists become accustomed to Chevron's presence.

GOWMA's Frost believes advertising is the better route, though neither Sohio nor Chevron have indicated plans for media campaigns.

Observers note that Chevron has been less specific than Sohio in outlining its plans for the Gulf properties. One expert believes that the lack of information can be attributed to "the company's obligation to continue operating Gulf as a separate unit until final FTC approval" of the merger.

The observer also says that Gulf personnel do not seem to know anything about Chevron's future plans for the Gulf jobbers or for Gulf marketing personnel.

A Chevron spokeswoman says that the company will "continue to enjoy Gulf's brand recognition during an undetermined transitional period," with the eventual phasing out of the Gulf brand in favor of Chevron. She says that the company will continue to honor Gulf credit cards but that all credit card processing will now be done at Chevron's Concord, Calif., processing center. Gulf's card transactions had been processed at the company's credit card center in Atlanta.

Though not legally binding, the spokeswoman adds that Chevron has promised not to use Gulf's credit card customer lists to solicit cardholders for Chevron. She says that no specific time period has been tacked onto the promise.

Chevron in early December said that it had "no further plans" to divest more of the Gulf properties which include several foreign crude oil trading companies and a fleet of 10 mobile rigs. The company expected by this month to close the sale of Gulf's 17% interest in the Colonial Pipeline system and a 51% interest in the West Texas Gulf Pipeline, as ordered by FTC.

Chevron has announced its plans for other personnel and for Gulf's Pittsburgh headquarters. In late November, the company said that it was offering voluntary severance, with up to a full-year's salary, for some 12,000 employees nationwide. It also announced the transfer of 5,800 jobs from Houston and various other locations to Chevron headquarters in San Francisco and the closing of Gulf's corporate headquarters in Pittsburgh.

The company announced that Gulf's eight marketing districts and two lube oil regions will merge with nine Chevron divisions to form 11 marketing divisions by April. The divisions will be: San Ramon and La Habra, Calif., Denver, Dallas, Houston, Atlanta, Baltimore, Perth Amboy, N.J., and Plantation, Fla. The lube oil regions will be based in Chicago and Los Angeles. *—Tim Grace*

Slide in Station Count Ebbing; Survivors Start to Get Fitter

While it's too early to be downright optimistic, fresh figures from the federal government indicate the precipitous decline in the U.S. service station population may be bottoming out.

The good news is contained in the 1983-1985 franchising report which the Bureau of Industrial Economics of the Department of Commerce will release later this month.

The study says the 1984 population decline wasn't nearly as great as had been forecasted. It also says that the 1985 population decline will be the lowest one-year decrease since the big slide began way back in the hectic, oil-short days of 1973.

The 1984 population is estimated at 132,080 service stations. The 1985 projection is 130,000.

To put these figures into perspective, it should be noted that last January's population forecast for the year just ended was 130,000 and specified that at least 6,500 retail outlets would vanish from the highways and byways during the 12-month period.

Instead, the revised estimate for the 1984 population is 132,080 stations—meaning that only 4,500 or so stations had disappeared, 2,000 fewer than expected.

It also moved back by one full year the projection that the service station population would fall to around 130,000—that won't happen until year-end 1985.

The franchising study itself makes no projections on the possible bottoming out of the population slump. It sticks to its statistical knitting with drab tables and factual recitations. But industry observers were quick to note that the slow-down in the population decline may signal the end.

There's a building and rebuilding program going on now as majors and independents alike fight for diminishing market shares. Although some analysts had said in the past, while everything was going downhill at a breathtaking pace, that the service station population could possibly drop as low as 100,000, most observers felt that 125,000 to 130,000 was a more likely figure. And, that's where it appears to be heading in 1985.

Not quite 2,100 stations are expected to be closed down in 1985. That's the lowest one-year total since 1976, when only 2,640 were boarded up. The biggest one-year loss was 1974 when 19,750 stations went out of business.

What this all means, however, is that the service station world has shrunk from 226,459 stations in 1972 to 132,080 in 1984, a drop of 94,379 or 41.7%. If the 1985 figure of 130,000 proves to be correct, the new total would be a drop of 96,459 stations and 42.6%.

That there are fewer stations does not mean the marketing industry will be unable to handle the increased volume of passenger cars and other vehiclar traffic. Many of the stations are being replaced by 100,000 to 200,000 gal./month pumpers, and some companies are building in the 300,000-plus gal. range.

Thus the years-long shakeout, while causing many casualties among independents, particularly "mom and pop" locations of 30,000 gal./month or so, is having a positive effect on the survivors.

This is borne out by the fact that gross income for the 130,000 service stations is expected to rise to $111-billion in 1985, up 4% over 1984's $107-billion.

The Bureau of Industrial Economics' figures, like those of the U.S. Census Bureau, only involve those service stations that generate 50% or more of their income from the sale of gasoline and oil products. So, it does

'Only' 4,500 stations disappeared in 1984—2,000 less than expected, leaving 132,080.

not take retail pumps at convenience stores and other locations into consideration.

The census bureau definitions are so limited that they prompted the American Petroleum Institute to petition the government in November to broaden its base so that the marketing industry could get a better handle on its statistical profile.

But API's petition was limited too. It suggested classifications that would indicate totals for conventional stations, pumpers and convenience stores, while retaining the 50%-and-above proviso for service stations.

This prompted newsletter publisher Dan Lundberg to write an open letter to the government and the industry suggesting a real overhaul that would be something better than a "lamentable perpetuation of an antiquated methodology."

He said neither API's fine-tuning nor anything else so far is addressing itself to the basic shortcomings—the lack of an urgently needed full accounting of the nation's gasoline system.

The proposals couldn't have been more opportune in light of the errors that took place in the 1982 census and only recently came to light: a blooper that will deprive the industry of having a full universe count of the retail stations. [See related story on page 34.] *NPN*

Is the Long Downhill Slide Over at Last?

Year	Population	Vs. Preceding Year	% Chng.
1985*	130,000	-2,080	-1.6%
1984*	132,080	-4,490	-3.3
1983	136,570	-8,120	-5.6
1982	144,690	-6,560	-4.3
1981	151,250	-7,290	-4.6
1980	158,540	-6,240	-3.8
1979	164,780	-7,520	-4.4
1978	172,300	-4,165	-2.4
1977	176,465	-10,375	-5.6
1976	186,840	-2,640	-1.2
1975	187,480	-6,650	-3.4
1974	196,130	-19,750	-9.1
1973	215,880	-10,579	-4.7
1972**	226,459	—	—

*Preliminary estimates and projections; **Peak year.
Source: "Franchising in the Economy 1983-1985," U.S. Department of Commerce, Bureau of Industrial Economics, January 1985. Service stations as defined by U.S. Census Bureau with 50% or more of their income from gasoline and oil products.

Service Stations: The Pace Slows Down

	1985	1984	1983	% Chng. '85-'84	% Chng. '84-'83
Total Establishments	130,000	132,080	136,570	(1.6)	(3.3)
Company-owned	23,400	23,774	24,583	(1.6)	(3.3)
Franchisee-owned	106,600	108,306	111,987	(1.6)	(3.3)
Total sales of products and services ($000,000)	$111,322	$107,040	$103,121	3.8	4.0
Company-owned	20,038	19,267	18,561	3.8	4.0
Franchisee-owned	91,284	87,773	84,560	3.8	4.0

Source: U.S. Department of Commerce, Bureau of Industrial Economics, "Franchising in the Economy 1983-1985," January 1985.

High Court Tells FERC To Redo Pipeline Regs

Independent refiners are applauding a recent U.S. Supreme Court decision upholding an appellate court ruling which said the Federal Energy Regulatory Commission must come up with guidelines by March to keep oil pipeline rates competitive.

The decision caps a lengthy legal battle and represents a blow to the Assn. of Oil Pipelines, which argued that marketplace forces already keep rates low. FERC agreed with AOP's position back in 1982, when it said Congress should consider deregulating oil pipeline rates because competition had proven effective in keeping transportation rates down. At the time, FERC said it was opposed to "aggressive federal intervention" and that it would only monitor rates if complaints were filed by individual pipeline users.

But a number of smaller refiners, led by Kerr-McGee, appealed the FERC ruling to the U.S. Court of Appeals for the District of Columbia. The court tossed out the FERC decision, claiming in March 1984 that the commission had ignored a congressional mandate to set "just and reasonable rates" in the transport of crude oil to consumers. "We cannot square FERC's statutory responsibilities with its own, quite novel principle that oil pipeline rate-making should protect against only 'egregious exploitation and gross abuse,' " the court wrote.

The case was taken to the Supreme Court by AOP, which argued that the FERC decision should stand. By accepting the appellate court verdict, the high court also let stand the lower court's ruling that FERC must set new guidelines for oil pipeline rates by March 1985.

The major oil companies remained neutral during the proceedings, according to a spokesman for the National Petroleum Refiners Assn. *NPN*

Hit Again, Mobil Calls $100-Million Suit No. 2 A 'Ridiculous' Complaint

Mobil Oil again has found itself hit with a $100-million lawsuit from a former sales rep (and litigated by the same attorney).

A November filing in California superior court by Los Angeles-area lawyer James Carroll for ex-Mobil salesman Lanning R. Gans charges the company engaged in "TBA coercion and price fixing" during Gans' 10 years prior to his firing, according to a complaint copy obtained by *NPN*.

The suit mirrors a complaint filed in August—also handled by Carroll—from A. Karl Hemsley, another ex-rep who worked West Los Angeles [*NPN*—Oct. '84, p34]. Hemsley's suit was ordered re-filed by a judge citing its length and "extraneous material."

"The (Gans) complaint is ridiculous, and Mobil completely denies the allegations," says Mobil spokesman Tom Collins. "The suit is the same as Hemsley's but with Gans' name on it."

Whereas Hemsley was fired for "performance reasons," said Collins, Gans was fired because Mobil suspected he had a financial interest in a Mobil station, contrary to company policy statements which Gans signed.

On the opposite coast, Mobil is waging a heady offensive battle of its own against *The Wall Street Journal*, the nation's most influential financial newspaper.

Mobil says it is boycotting the *Journal* and has cut off all editorial and advertising contact "after five years or more of problems with working with them." The *Journal* says it will continue to cover the company "whether or not they send us press releases." The New York newspaper says the boycott came after the *Journal* carried a story about the planned construction of an office tower in Chicago by a real estate firm whose employees include the son-in-law of the Mobil chairman. *NPN*

three refineries—one of which would be jeopardized if leaded gasoline was rendered uncompetitive.

"We are opposed to it," says Northwest Petroleum Marketers Assn. exec Gerry Everett of the leaded tax plan, "because this could disrupt the supply situation. If you have a sudden conversion to unleaded, I'm not sure refiners could meet that demand."

Murphy Oil's 39,000-b/d Superior refinery, which supplies Minnesota and Wisconsin marketers from its northwestern-most Wisconsin location, would be particularly hit. One company exec says operators had to bring in unleaded this year and expect to continue doing so for the next three years to meet demand before isomerization and other units can be brought on-line to produce enough unleaded.

Anything—a tax that deadens leaded demand or a federal decision to cut by 1 gram lead/gallon content to 0.1 gram/gal.—that would "artificially stimulate conversion to unleaded would jeopardize plant operation," says a company exec.

"If we're out of unleaded," he says, "customers can't be expected to come to us for leaded and go somewhere else for unleaded." NPN

NY Cracks $200-Million Bootleg Gasoline Fraud

Climaxing a two-year investigation in which oil companies, associations and legitimate retailers cooperated, New York state officials have lowered the boom on unscrupulous gasoline distributors who were bootlegging motor fuel, adulterating grades and octane levels, and generally defrauding the government of more than $200-million a year in taxes.

In mid-December, state officials moved to prosecute 18 motor fuel distributors alleged to have participated in the scheme and to cancel the licenses of 161 motor fuel distributorships on similar grounds. The latter were primarily "dummy" corporations used in the massive fraud, which legitimate marketers have been fighting for several years.

More distributors were expected to be prosecuted later. No names were released at the outset last month. Tax officials estimated as much as 10% of the gasoline sold in New York state "could be bootlegged stuff." Most of the activity took place in the greater New York City area, although some upstate areas, including Rochester, Syracuse and Albany also were said to be involved.

The state said the "widespread gasoline bootlegging" was promoted in part by organized crime. NPN

Department of Energy: SPR 60% Full and Rising

The U.S. Department of Energy estimates that the country's Strategic Petroleum Reserve stood at about 450-million bbl. of crude at the end of 1984, about 300-million bbl. short of the 750 million barrel goal set by Congress for the end of 1990.

The reserve, located in huge underground salt mines along the Texas and Louisiana Gulf Coast, now contains more than 90 days worth of oil, should imports be suddenly curtailed.

The Energy Policy and Conservation Act of 1975 outlined plans for a 1-billion-bbl. reserve following the Arab oil embargo of 1974. The first proposal, which called for storage of 500-million bbl. by 1982, proved to be grossly optimistic. By January 1982, only 230-million bbl. had been stored.

But DOE has picked up the pace in the last few years, and is now filling the reserve at a congressionally mandated pace of 159,000 b/d. Congress also dropped its ultimate goal from 1-billion to 750-million bbl., a target which DOE should meet handily if current fill rates continue.

DOE now claims its ability to withdraw the oil during an emergency—the so-called "drawdown test"—has also proven successful. In its most recent test last year, the reserve team was able to withdraw 1,053,000 bbl. during a 24-hour period from its West Hackberry, La. storage cavern, some 53,000 bbl. more than the DOE goal. The oil was pumped from the site to the Sun Oil Co. terminal near Nederland, Texas. NPN

DuPont Alcohol Blend Awaiting EPA Waiver

Alcohol fuels proponents last month were awaiting an Environmental Protection Agency decision on whether to grant DuPont's request for a methanol/ethanol blend waiver from the Clean Air Act.

Most observers expected EPA approval sometime this month.

DuPont requested the waiver last July, claiming that the blend would protect automotive fuel systems and boost octane ratings. The blend contains 5% methanol, 2.5% cosolvent (usually ethanol) and a corrosion inhibitor. The company spent two years researching the blend after EPA rejected it.

The waiver, if granted, would be the third for methanol blends, the others being Arco's Oxinol and American Methyl's Petrocoal. NPN

C-Stores' 'Gas' Share Still Growing

In excess of 20% of the total U.S. retail gasoline market this year will be dispensed through self-serve hoses at combination gasoline/convenience store outlets, estimates John F. Roscoe in his latest "Dollars Per Day" survey of the small food store industry.

Roscoe estimates that in 1983 some 14.6-million gal. or 14.71% of the total market moved through C-store type facilities. He put the total number of stores that year at about 53,000 and said 63% sold gasoline, with the average store dispensing 1,201 gal. per day.

Southland Corp., with annual sales of almost 1.4-billion gal., by far leads the C-store chains in gasoline sales. Six other chains (Munford, National Convenience Stores, Circle K, Conna, Casey's and Shop & Go) all had sales in excess of 100-million gal. in 1983.

Most chains reported rather slim gasoline margins. Shop & Go had an average of 3.2¢ and Lil' Champ 4.1¢, according to Roscoe, while NCS (6.7¢), Circle K (6.8¢) and Casey's (7.8¢) did better. Even so, seven of 11 chains surveyed each had annual dollar sales in excess of $150-million. Southland topped them all with over $1.5-billion in gasoline sales. NPN

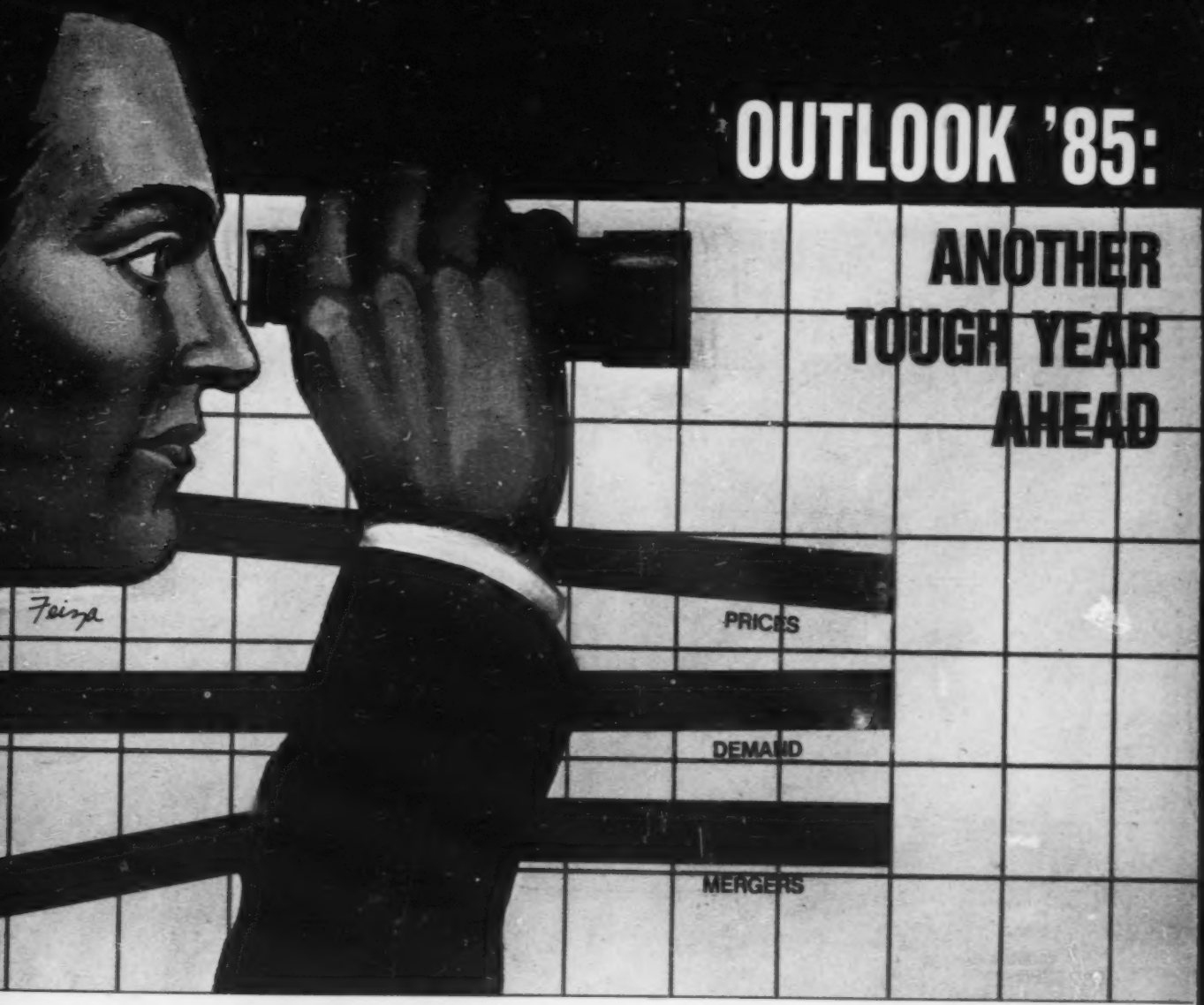
C-Store Chains' 1983 Fuel Record:

	Stores/ with 'Gas'	*'gas' units added*	*gallons sold (000)*	*'gas' margin per gallon*	*% sales from 'gas'*
Shop & Go	430/307	21	106,000	3.2¢	36.9%
National Convenience	1,081/775	80	310,000	6.7	39.7
Southland	7,299/3,007	180	1,361,200	NA	25.5
Circle K	2,185/1,463	665	346,000	6.8	37.1
Lil' Champ	183/101	19	24,943	4.1	31.1
Lil' General	436/212	4	44,794	NA	22.6
Casey's	427/427	50	145,129	7.8	63.4
Sunshine Jr.	345/321	−1	68,647	NA	52.0
Munford	916/469	−12	373,000	NA	NA
Dairy Mart	176/28	5	12,397	NA	NA
Conna	405/268	−21	134,000	NA	36.8

Source: John Roscoe's 'Dollars Per Day' and 'Gas Marketing' surveys, October 1984

OUTLOOK '85:

ANOTHER TOUGH YEAR AHEAD



With too much of everything on tap or readily available—crude, products, refineries, storage capacity and transport included—it's no wonder many oil marketers are looking at 1985 with a mixture of bland optimism, jaundiced apprehension and unconcealed perplexity.

They know instinctively that they are in for another year of hard decisions amid increasingly intense competition between majors and independents for the shrinking gasoline market, and between fuel oil dealers and utilities for the space-heating markets.

There also will be some hard knocks regarding underground storage tank regulations—federal, state and local—and probably some expensive problems in insurance coverage, which is going to become more difficult to get for either slow or disaster-type leaks.

With all the product that's around, there's little likelihood that prices will firm up and/or that margins will improve.

To the contrary, it wouldn't be surprising to see a lot more 99¢ unleaded gasoline on the market than there is now in scattered areas, and perhaps some 90¢ leaded regular as posted loss leaders. Toward year's end, leaded regular at 95¢ gal. already was fairly common.

Mergers and acquisitions also are contributing to the skittishness. Wall Street and other observers keep talking about the possibility—even the probability—that there will be at least two and maybe three more big ones in 1985, while movers and shakers perceive a green light from the second Reagan administration.

Meanwhile, the year just ended was a better one than many oil companies had anticipated.

Department of Energy data showed that product demand, after five consecutive years of decline, actually rose 4.2% in 1984 as the economy surged upwards and recovered from the '82 recession.

Gasoline volume wasn't up too much—only 1.5% for the year. Nevertheless, it was a plus sign for a change. The same held true for middle distillates. They were up 7.1%.

Unfortunately, the same happy news isn't in the cards for 1985, according to

By J. Richard Shaner
With Staff Reports

the government forecasters. They say gasoline and distillate consumption will show slight declines this year, 0.6% and 0.7% respectively.

Independent Petroleum Assn. of America, which also has established a pretty good track record in forecasting, concurred with the federal prognosticators. But IPAA was a bit more conservative. It said gasoline volume in '85 would be even with 1984 and distillate demand would be down only 0.3%, not the 0.7% the feds predict.

All this, naturally, means that the apparent trend in prices isn't exactly pleasant.

The composite price for gasoline—the average for all grades and services—peaked at $1.31 gal. in 1981. It slipped to $1.28 gal. in 1982, to $1.22 gal. in 1983 and was projected to average $1.20 in 1984 and do no better than that in 1985.

Whether it can actually do that, however, remains to be seen.

In November, for example, *Lundberg Letter* reported that the composite price had already dropped to $1.18 gal.—the lowest annual level since 1979.

The OPEC Factor

Much, of course, will depend on what happens in the OPEC world in the first half of 1985. The OPEC nations agreed on production cuts of 1.5-million b/d in late October to support the shaky crude oil price structure. But before the conferees even got back to their homelands, some OPEC exporters were already discounting prices and exceeding quotas.

Most analysts agreed that the weak market could not tolerate this sort of a situation for a prolonged period. If the so-called $29 bbl. bench mark collapses, that would trigger a round of domestic price cuts or put so much pressure on the marketplaces that reductions would be inescapable.

Another factor of note is the disparity between the sale prices of light crude and heavy crude. There should be roughly a $1 bbl. difference, but in the real world the differential is closer to $3 bbl. Many refiners are now buying the heavier oil at bargain prices and processing it in more sophisticated equipment. A differential of that size equates to about 7¢ gal.

The outlook for residential heating oil is equally sobering.

Government data show that distillates averaged $1.19 gal. in 1982, $1.08 in 1983 and $1.10 in 1984. They are expected to do no better than $1.10 for the year 1985. But heating oil prices fluctuate violently with the weather and the region. A prolonged cold snap, such as occurred last winter, can make prices move up 10¢ to 20¢ gal. in a hurry.

As an aside, it might be noted, however, that the use of the distillate space-heating volume is steadily declining, due in part to competition from the gas and electric utilities and in part to the conservation ethics of thousands upon thousands of homeowners. Most of the increase in distillate consumption in 1984 resulted more from the expanding size of the diesel fuel cut for transportation than the requirements of the residential market.

Shaky Product Margins

With projections generally calling for little or no growth in demand for motor gasoline, the outlook for any improvement in oil product prices and margins for 1985 appears slim.

In fact, market conditions in the fourth quarter of 1984 indicated that the coming year could be possibly worse than the past two or three years. Gasoline prices were about as low as they had been all year, and the Northeast was reporting the warmest October in 15 years.

A shaky crude oil market existed at the time, with the Organization of Petroleum Exporting Countries (OPEC) trying desperately to prop up world prices. With its "official" benchmark price of around $29 bbl. being undercut from $1 to $2 in spot trading, OPEC was hoping that a cold winter and increased distillate demand would help its efforts to get world crude oil supply down before spring.

Most experts were expressing doubts that OPEC would succeed, though, and were speculating that there could be further easing of world prices.

The experts at year's end could see nothing much to cheer up motor fuel and distillate marketers insofar as profit margins between wholesale and retail prices are concerned.

Demand projections for 1985 indicate that gasoline consumption will show little, if any, change from 1984.

If this holds true, there is likely to be a continuation of the pitched battle that major oil companies, the convenience store chains, and large-chain gasoline marketers have been waging for market share for the past two or three years.

This battle royal could lead to more efforts by oil jobber groups to seek legislation to help curb what they consider to be unfair competition. Most such groups seem to believe forced divestiture of oil company direct-retail marketing operations and/or minimum markup laws would help do this.

An effort underway in Texas in this respect will bear watching as the year moves along.

The Texas Oil Marketers Assn. is following a well-planned and carefully laid out program which it thinks will probably lead to divestiture or minimum markup laws in Texas.

After conducting extensive surveys of alleged unfair marketing practices, TOMA got a Texas legislative committee to begin hearings in November. TOMA charged, in its opening salvo, that both the majors and C-store chains were engaging in unfair pricing practices aimed at forcing smaller jobber firms out of business.

The majors and store chains rebutted these allegations by claiming, in general, that the smaller firms were simply not responding to customer demand for less expensive gasoline. They said they weren't trying to drive anybody out of business by serving their customers' demands.

Some large-chain gasoline marketers who might be adversely affected by some new divestiture or minimum markup type legislation because of their similar direct-retail operations could wind up supporting, at least silently, some such legislation attempts.

The majors especially, such large independents claim, often subsidize their low retail prices with crude oil profits. These

Some '85 Projections by Government Forecasters

- **Motor Gasoline:** Consumption is expected to average 6.72-million b/d in 1984 and fall off slightly in 1985 to an average of 6.67-million b/d. This means 1984 consumption will be 1.5% over 1983 and 1985 will be 0.7% under 1984.

- **Mileage:** Miles traveled in passenger cars are projected to increase 4% in 1984 (over 1983), and another 1% over that in 1985. Car efficiency is projected to increase 5% between 1984 and 1985.

- **Distillates:** Fuel oil consumption is expected to average 2.9-million b/d in 1984 (up 7% over 1983) and 2.8-million b/d in 1985 (down 3.1% from 1983). Industrial activity and diesel fuel requirements accounted for much of the 1984 increase, and the deceleration of the economy and the tax increase on diesel fuel are expected to have negative impacts on distillates in 1985. Demand for residential heating oil also is expected to be depressed anew by fuel switching.

- **Residual:** Demand for residual fuel oil is projected to average 1.4-million b/d in 1984, which is about the same as in 1983. But this was the first break in the steady decline of recent years. It is only temporary, however. Demand is expected to resume its slump in 1985, averaging 1.3-million b/d, or −5.6%.

Washington: Few Changes, But More Taxes, Tank Laws

While it's still too early to be certain, last November's election made so few changes in the government that the year ahead may as well be titled, "1984, Part II."

Unlike the first months of his initial term, the first year of the second Reagan administration doesn't offer much in the way of an opportunity to dramatically alter the petroleum marketplace. And, the White House doesn't have to look far for controversial issues to tackle, so it's unlikely we'll see a major initiative directly affecting marketers. In fact, like many presidents before him, President Reagan may use his second term to pursue international issues and build his reputation as a statesman. Already the Washington rumor mill has it that the White House has given up the idea that it can persuade the Democratic-controlled House of Representatives to go along with many domestic plans, and will thus concentrate on foreign relations.

By the same token, the ideological make-up of Congress hasn't changed much at all either. The lawmakers who battled for and against the interests of marketers for the past two years are back in town again—ready to renew the skirmishes. In fact, the only areas where some change is likely will be on the issues where just one or two votes can make the difference. Every new Congress brings some shuffling of committee assignments, the kind of movement which often creates a one- or two-vote swing.

Agency Appointments

If a dramatic and long-lasting change is in the works at all, it will come in the regulatory agencies, especially the independent agencies such as the Federal Trade Commission, (FTC) and the Federal Energy Regulatory Commission. The members of these commissions serve five to seven-year terms, which means that over the next four years, any of them that were holdovers from the Carter administration will be up for reappointment. With that handwriting on the wall, some probably will be scouting around for new jobs now and may leave their posts early.

It's also a safe bet that a few cabinet-level officials will be leaving Washington as well. To the surprise of some, Environmental Protection Agency Administrator William Ruckelshaus resigned three weeks after the federal election, reportedly over White House-proposed EPA budget cutbacks. His resignation, effective Jan. 5, was seen by some as an indication that the Reagan administration might pursue environmental policy lethargically. [See related story on page 65.]

Another likely departure whose effects may be felt by marketers is Attorney General William French Smith. Under Smith, the Justice Department has kept a low profile on most antitrust matters, but that's a posture any likely successor can be counted on to continue.

When it comes to specific issues, it's surprising how many important items are on marketers' Washington agenda in this age of decontrol and deregulation.

Despite its lack of an obvious direct connection to the industry, the hottest issue for marketers may be the soaring budget deficit and the efforts by Congress and the White House to cut it. The reason: Any effort to deal with the deficit leads directly to taxes and budget cuts.

To halve the roughly $200-billion deficit, the White House plans big spending cuts that include elimination of the Small Business Administration, whose low-interest loans have helped many jobbers.

Elsewhere, while not billed as a deficit reduction plan, the Treasury Department's "tax simplification" plan would hit oil upstream. The proposal repeals the oil depletion allowance and tightens up drilling write-offs. But it also speeds up the phase-out of the so-called windfall profits tax.

The plan hits income taxes too, eliminating many deductions, including depreciation and interest.

In addition, excise taxes, including gasoline taxes, are revenue-raising possibilities, and there remains a long-shot possibility that the frequently mentioned import tax—on crude oil or finished gasoline—will resurface. One distinct possibility is that Congress may eliminate or reduce the current tax subsidy for alcohol fuels in its quest for more money.

While it isn't likely that 1985 will be the year the Petroleum Marketing Practices Act (PMPA) amendments introduced last year will be passed by Congress, the measure will be reintroduced early in the session and this time around, backers will have time for some arm-twisting on its behalf. Whether or not it can make any headway depends on whether the industry can unite behind it and whether the inevitable committee shuffling makes the lobbyists' job easier or tougher. The best guess right now is that PMPA won't be changed until 1986, if at all.

Year of the EPA

This year may well be dominated by the Environmental Protection Agency, at least so far as marketers are concerned. EPA seems determined to make significant reductions in the lead content of gasoline, a process that will come to a head early in the year.

It also is well into a study of leaking underground storage tanks. That issue probably will surface in the spring or early summer, and the outcome may mean additional paperwork for marketers and, in some cases, EPA-enforced tank replacements. This year also will be the first year EPA gets to enforce the new Resource Conservation and Recovery Act. This one's an unknown. EPA wasn't entirely pleased with the final form of RCRA, although President Reagan signed the bill. The agency is bound by law to enforce RCRA, but the law doesn't require that it be zealous in its enforcement. The agency's commitment to RCRA should be evident in the White House budget proposal due out later this month. The same figures may also hint at EPA's plans on other issues, as well.

Antitrust Involvement

On the antitrust front, especially mergers, the FTC is the agency in the spotlight, having finally asserted its jurisdiction over the petroleum industry over the past four years. Since the make-up of that panel is only likely to change by the departure of consumer advocate Michael Pertschuk, the agency's view of mergers and acquisitions that pop up in 1985 isn't likely to differ much from the deals it permitted last year.

Heating oil dealers probably will get some bad news early in 1985. This is the year that price controls on a large number of natural gas wells are due to come off. Word is that the end of controls will come sooner, not later. And, because demand is off right now, decontrol probably means a drop in gas prices as producers scramble to make what profit they can from the wells. If prices stay low, it could spur yet another round of conversions.

One of the most interesting battles in Congress this year may be the efforts of lawmakers to deal with the spread of automatic teller machines (ATMs) into gasoline stations, grocery stores and other non-bank facilities. Late in 1984, a measure to bring ATMs under federal jurisdiction was introduced, but didn't get much attention. The bill would have superceded several state laws, which treat ATMs more restrively than bankers (and some major oil companies) would like. This could be the most interesting legislative battle of all in 1985, as Congress attempts to come to grips with a technology that's tied closely to the controversy over interstate banking but has implications for many other industries as well. The only safe forecast on this issue is that a host of lobbyists and lawyers will be placing orders for new Mercedes by year's end. *—Thomas Goldsmith*

independents allege that the majors seldom consider their station investments and other operating costs to arrive at their net profits.

"I know for a fact that in some of their sales meetings, they just talk about what their volume and share-of-market targets are for particular markets," says one who has attended such meetings of one supplier as a jobber customer. "You don't ever hear them mention profit goals."

But despite such criticism and probably more efforts to curb some of the competition with legislation, all indications point toward another year of hot price competition at the pumps and slim profit margins.

The situation may not be much better for distillate marketers, although much depends on the weather. A relatively snug supply situation could possibly result in strong margins during the early winter months if the weather is severe and foreign supply doesn't inundate the East Coast.

Some marketers are concerned that the farm diesel market will go from bad to worse because of the hard times farmers are having.

Some of the larger farmers, according to a marketer who supplies them, are turning increasingly to "till-free" planting and harvesting of crops. This means they simply spray chemicals on their fields to eliminate weeds and spray-plant their seeds, all by air. Diesel-consuming equipment goes into the fields only at harvest time, and then the spray process starts over.

"This is going to knock out a lot of agriculture diesel sales," says a Mississippi River delta marketer.

All in all, there seems little room for much optimism that supply and demand conditions, and hence prices and margins, will improve in 1985 over 1984.

DEMAND	1st Q	2nd Q	3rd Q	4th Q	Est. '85	Est. '84	% Chng.
Domestic Product Demand:							
Motor Gasoline	6,407	6,837	6,918	6,722	6,722	6,723	—
Aviation Fuels	1,165	1,168	1,198	1,176	1,177	1,165	1.0
Middle Distillates	3,321	2,916	2,746	3,183	3,040	3,007	1.1
Residual Fuel Oil	1,653	1,295	1,286	1,370	1,400	1,421	(1.5)
Liquefied Gases	1,765	1,386	1,417	1,719	1,571	1,570	—
Other Products	1,747	2,040	2,261	1,910	1,990	1,945	2.3
Total	16,058	15,842	15,826	16,080	15,900	15,831	0.4
Exports	680	718	675	680	688	694	(0.9)
TOTAL DEMAND	16,738	16,560	16,501	16,760	16,588	16,525	0.4

SUPPLY							
Domestic Production:							
Crude Oil	8,820	8,800	8,800	8,780	8,800	8,800	—
Nat'l Gas Liquids	1,588	1,589	1,576	1,595	1,587	1,605	(1.1)
Total	10,408	10,389	10,376	10,375	10,387	10,405	(0.2)
Imports:							
Crude Oil	3,335	3,633	3,862	3,632	3,617	3,360	7.6
Motor Gasoline	281	297	289	280	287	321	(10.6)
Aviation Fuels	59	65	54	50	57	57	—
Middle Distillates	240	238	268	267	253	268	(5.6)
Residual Fuel Oil	863	633	662	707	716	725	(1.2)
Liquefied Gases	251	189	195	241	219	209	4.8
Other Products	348	416	386	375	382	378	1.1
Total Imports	5,377	5,471	5,716	5,552	5,531	5,318	4.0
Other Supply	535	697	666	687	644	846	(23.9)
TOTAL SUPPLY	16,320	16,557	16,758	16,614	16,562	16,569	—

INVENTORIES							
Closing Stocks (000,000 bbl.):							
Motor Gasoline	239.3	232.9	222.3	225.3	225.3	229.5	(1.8)
Aviation Fuels	45.0	45.6	44.7	43.3	43.3	42.8	(1.2)
Middle Distillates	121.4	123.8	157.2	155.3	155.3	159.6	(2.7)
Residual Fuel Oil	45.0	45.9	46.0	46.0	46.0	47.9	(4.0)
Liquefied Gases	88.0	105.2	116.8	104.8	104.8	105.0	(0.2)
Other Products	52.1	50.6	43.5	45.9	45.9	43.9	4.6
Total Products	590.8	604.0	630.5	620.6	620.6	628.7	(1.3)
Unfinished Oils	112.5	109.5	109.7	107.8	107.8	107.5	(0.3)
Nat'l. Gas Liquids	10.8	11.6	11.8	11.8	11.6	11.5	(0.9)
Crude Oil	338.3	345.2	341.9	340.5	340.5	342.3	(0.5)
TOTAL INVENTORIES	1,052.4	1,070.3	1,093.9	1,080.5	1,080.5	1,090.0	(0.9)

Source: Independent Petroleum Assn. of America, Supply and Demand Committee, November 1984.

Station Outlook

There was a bit of good news about service stations in 1984, but this is expected to be offset in 1985 as the trend toward more-expensive, higher-volume retail outlets continues.

It has been expected that the U.S. total of service stations would drop from 136,670 in 1983 to 130,000 in 1984. The drop continued, of course, but not as rapidly as had been forecasted. Fresh statistics from the U.S. Commerce Department's Bureau of Industrial Economics indicate the population at the end of 1984 was 132,080 and that the projected population for the end of 1985 is 130,000.

The Bureau of Industrial Economics' statistics are much more important this year in view of the U.S. Census Bureau blunder which makes it impossible for the industry to have a universe population total for the 1982 nose count. [See related story on page 28.] It must be remembered, however, that the service station data herein are for outlets which generate more than half of their income from the sale of gasoline and oil products. They do not include convenience stores and other places which dispense gasoline but make more money in other lines of work.

Lundberg Letter recently estimated the universe—that is, all places where motorists can buy gasoline at retail pumps—in the neighborhood of 190,000 in mid-1984. In 1972, the year the legitimate service stations peaked at 226,000, *Lundberg Letter* estimated the universe at 400,000.

A substantial amount of service station construction and modernization took place in 1984, reflecting the intensity of the competition for street sales by and between majors and independents. Virtually all of the majors have had extensive face-lifting programs underway for the past several years. Mobil, for example, has an ongoing five-year program into which more than $500-million has been committed for service stations old and new. A sign of the times: Mobil said it is spending as much as $1-million to $1.5 million for top-of-the-line locations and equipment. These stations are targeted to move 3-million to 5-million gal. monthly [*NPN*—Dec. '84, p40].

Some experts say the latest figures indicate that station closings will slow in 1985 or '86.

Such huge investments by the majors in retail outlets, coupled with high expenditures by large-chain independents in new and remodeled units, will keep the pressure on margins and drive more older, conventional stations out of business.

Most majors are expected to continue adopting tactics previously followed by the independents of trying to pump more gallons through fewer retail outlets. As more and more new units projected to pump from 100,000 to 150,000 gal. or more per month come on-stream, the total station population is bound to decline even further.

The way both the majors and indies plan to get such high volumes, of course, is primarily by being price aggressive. Since the convenience-store chains have similar targets in mind, downward pressure on retail pump postings is expected to remain fierce.

Some large-chain independents say they doubt rack-to-retail margins in highly competitive markets will average out at more than 5¢ to 6¢ gal. during 1985 because some marketers have whittled down their operating costs to market on such low margins. One such indie says that, even if competition lets him, he won't post prices to yield margins of more than 7¢ gal. "We've got our costs down to where we can make good profits at that level and we're not about to give our competition any breathing room," he says.

The majors have pretty much convinced everybody that they don't plan to improve margins, either, as have the large-chain convenience stores—despite the cash outflow for station improvement.

Unfortunately, industrywide capital investment figures are not readily avail-

The Federal Forecast for Supplies and Prices

	By the Year			
	History		Projections	
Demand (million b/d)	1982	1983	1984	1985
Motor Gasoline (total)	6.54	6.62	6.72	6.67
Leaded	3.41	3.65	3.94	4.11
Unleaded	3.13	2.97	2.78	2.56
No. 2 Heating Oil	2.67	2.69	2.88	2.79
Residual	1.72	1.42	1.42	1.34
Other Products	4.37	4.50	4.85	4.98
Total U.S.	15.30	15.23	15.88	15.78
Prices (per gal.)*				
Motor Gasoline**	$1.28	$1.22	$1.20	$1.20
No. 2 Heating Oil				
Wholesale	0.97	0.82	0.84	0.84
Retail	1.19	1.08	1.10	1.10
Residual***	—	0.65	0.70	0.70

* All prices include taxes except No. 2 heating oil. ** Average for all grades and services. *** Average for all grades of sulfur.

able this year, for the first time in a decade or more. McGraw-Hill, Inc., which surveys the oil and other industries and reports on capital expenditure plans—past, present and future—indeed, has made figures available but only to subscribers on a fee basis and for internal use only.

A lot of what happens in 1985 capital investments, especially marketing, depends on the fourth-quarter 1984 profits, and those of the four quarters of 1985. Third-quarter 1984 was weak, even though gasoline consumption was up slightly. Fuel oil consumption was dogged by the warmest October in 13 years. If this pattern persists throughout the fourth quarter, year-end profits will be off noticeably for many companies.

This, of course, will force either retrenchments in 1985 marketing projects or abandonment of many secondary items.

Flow from Abroad

In addition to the underground storage tanks and the stage II vapor recovery situations, there are several areas which could blossom into real problems in 1985.

The first of these is the matter of gasoline imports. Even though the domestic market had more than it needed, the flow of gasoline imports increased materially in 1984. American Petroleum Institute, for example, noted in November that gasoline imports were up 50,000 b/d in the first 10 months of 1984, or roughly 20% higher than in 1983. There also were indications that this total may be understated by 30,000 to 50,000 b/d because of definitional problems and the failure of some companies to report their imports.

Of more concern, however, is the fact that refineries with aggregate capacities of about 3-million b/d are being built in the Middle East, with U.S. markets one of their prime targets for product. Inasmuch as their crude oil prices to themselves are much lower than their prices to international markets, the probability of much lower product prices is obvious.

There already has been some talk in Washington about putting some sort of control on the product imports before the situation gets out of hand [*NPN*—Dec. '84, p16]. But independent marketers are opposed to any restrictions because of the price flexibility it gives them in competition with major domestic refiners and suppliers. Society of Independent Gasoline Marketers of America particularly is opposed to any restrictions on gasoline imports.

Mega-Mergers: Chapter II

The matter of acquisitions is and will be sensitive in 1985 too; not the smaller buyouts and sellouts, but the big ones involving the top and second tiers of oil companies.

The march of mega-mergers resumed in late 1984 when Texas oilman T. Boone Pickens and his Mesa Petroleum and a partner took aim at Phillips Petroleum. [See story on page 18.] The long-anticipated shot heard 'round the oil patch—a $60/share offer valued at nearly $8.8-billion—could trigger higher bids and ring in a new year of acquisition activity.

The industry is still awaiting the denouement of the Texaco/Getty and Chevron/Gulf mergers. Texaco is already in full control of the old Getty marketing string in the Midwest but is awaiting Washington approval of its proposal to sell the East Coast Getty operations to Power Test Corp., of Plainview, N.Y. In the same vein, Chevron is awaiting the federal OK on its proposed sale of Gulf's southeastern marketing facilities to Standard of Ohio.

There's bound to be a lot of shifting and changing in the wake of these approvals, so it will be months before the dust settles on either or both. And, it may be years before the Gulf logo disappears in the Southeast. Chevron's proposal gives Sohio the right to use the Gulf name for at least five years, if it so desires.

What's more, the mergers may continue. A recent *Forbes* magazine article entitled "Waiting for the Next Big Oil Takeover" doesn't just speculate, it says flatly, "Don't be deceived by the current calm after the election, the wheeling and the dealing for oil companies is likely to begin again with a vengeance."

Financial newspapers and other business publications are in a like mood, namely, not just whether but how soon and who's next.

Mostly likely candidates—or at least the ones most talked about—are Union Oil of California, Amerada Hess, Sun, Tenneco, Kerr-McGee and, surprisingly, Mobil, the nation's No. 2 oil company.

Union, Sun, Hess and Phillips have said publicly they're not interested in being acquired and have shorn up their ramparts to fend off what would be regarded as hostile takeovers.

The more interesting question, however, is who might the buyer be? Mobil, Texaco and Chevron are not in the market anymore because of their respective purchases of Superior, Getty and Gulf. Of the upper tier, that leaves Exxon, Amoco, Atlantic Richfield and Shell. Exxon, because of its size, is not generally regarded as a buyer and Shell is in the process of being re-absorbed by its European parent, Royal Dutch. That leaves Amoco and Arco, both of which have good credit lines available. In fact, Arco had lined up enough money to express interest in Gulf but dropped out when the price reached record-breaking levels.

Some of the Arab countries and oil companies have indicated interest in the American market, so don't be surprised if

Quarterly Averages

1984				1985			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
6.34	6.86	6.90	6.76	6.41	6.77	6.86	6.66
2.69	2.86	2.84	2.72	2.53	2.62	2.61	2.49
3.65	4.02	4.05	4.04	3.88	4.15	4.25	4.16
3.20	2.79	2.58	2.96	3.00	2.74	2.51	2.90
1.74	1.30	1.26	1.39	1.66	1.21	1.18	1.30
4.77	4.61	5.02	5.00	4.92	4.77	5.12	5.11
16.06	15.58	15.75	16.11	15.99	15.50	15.67	15.97
$1.20	$1.22	$1.19	$1.20	$1.18	$1.19	$1.20	$1.20
0.86	0.83	0.83	0.84	0.84	0.84	0.84	0.85
1.13	1.08	1.08	1.10	1.11	1.10	1.10	1.12
0.69	.068	0.69	0.73	0.73	0.70	0.67	0.69

Source: Energy Information Administration, Short-Term Energy Outlook, November 1984.

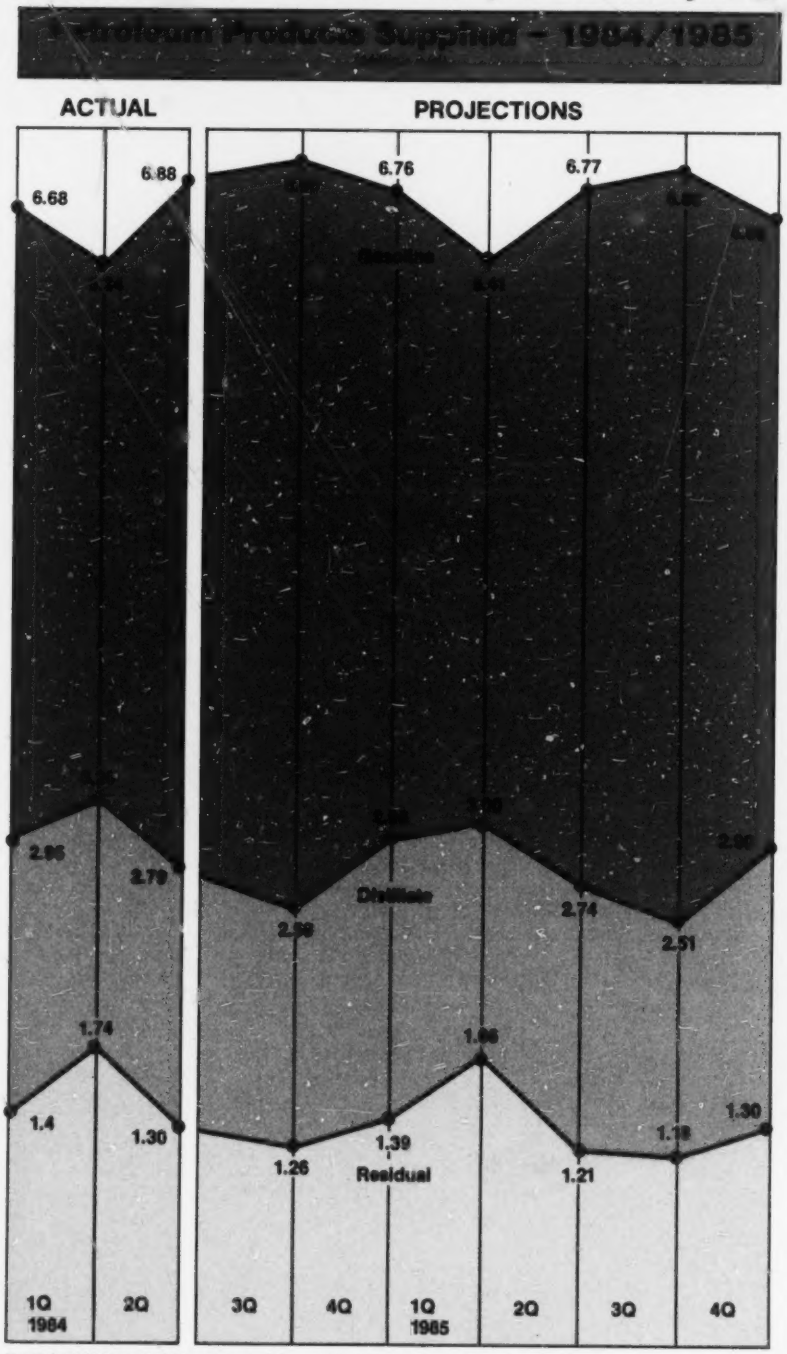
one of them suddenly makes an acquisition offer for an American firm.

Most analysts believe acquisition bids will pretty well have to come in the first 12 to 18 months of the new Reagan administration lest time run out on the favorable support such a maneuver might obtain in Washington.

Declining of Refining

Motivating the mega-mergers of the past and those yet to come is the need for proved reserves of crude oil and natural gas. There is no question that it is getting more difficult and more expensive to drill for oil and gas in conventional fashion at home and abroad, and the odds generally are long.

A specific example of this was Shell's recent decision to abandon its high-stakes probe of the deeper waters of the Atlantic Ocean off the New Jersey Coast. Shell, in behalf of assorted partners, drilled four consecutive dry holes at a cost of $100-million. Previously it had drilled four other dry holes for a total of eight dusters in the Atlantic. All told, two dozen oil companies drilled 40 holes in the Wilmington and Baltimore Canyons off New Jersey and the Georges Bank off New England in recent years, spending more than $3-billion in the process and coming up with 35 dusters and five holes with inconsequential showings.



Graph by *NPN* based on Department of Energy Short-Term Energy Outlook, Nov. 1984.

Refineries are going to continue to be a drug on the market in 1985 and more can be expected to fall by the wayside with their demises hastened not only by sated markets and poor recovery economics but also by the imponderables of the Environmental Protection Agency's stepped up push to phase out the lead in gasoline.

Even though 50 or more refineries have been shut down forever or mothballed indefinitely in the past several years, and throughput has been reduced by 1.5-million b/d or so, many suppliers feel there's still too much capacity readily available.

"What's really needed," said one supplier at a recent meeting, "is another shakeout which would cut off another 1.0-million to 1.5-million b/d. That would put us more or less in line with what we need. And, it would let the survivors operate a bit more efficiently and economically."

U.S. refineries are still operating at less than 80% of capacity, which is a level they have to be above to maximize operations and profits.

Some suppliers and independents are privately fearful that when the Middle East refineries come on-stream in 1985, the economics of their output may have a telling impact on the smaller refineries which are still struggling to stay alive.

That the industry as a whole is genuinely concerned in the refinery picture is obvious in the National Petroleum Council's creation of a new study committee to update its profile of the U.S. industry and its ability to meet projected demands. The study by the quasi-government agency will take a look at capacity changes including closings, debottleneckings and additions, as well as the survival probabilities of the smaller units. The report is due late this year.

EPA's decision to accelerate the lead phaseout in 1985 so that by Jan. 1, 1986 it could be reduced to a level of 0.1 gram/gal. isn't going to help precariously balanced refineries. The majors aren't too happy with the EPA phaseout either. For many, it's simply too fast, and they feel that they will be unable to meet unleaded requirements in such a short span of time. Unleaded gasoline is expected to account for at least two out of every three gallons sold in 1985. And eight out of 10 by 1988-89.

It can be assumed that the lead phaseout will generate an uproar in Washington and throughout the industry in 1985. Given the floundering nature of EPA, the likelihood is that compromises will fend off a

full confrontation until 1986 or 1987, when the use of leaded gasoline will be approaching its own sunset period.

EPA's long-overdue decision on stage II equipment for service stations and/or cars also should surface sometime in early 1985, thus precipitating another storm of controversy no matter which way it goes. The oil industry favors the use of onboard canisters in cars to collect vapors in lieu of the heavy nozzles and extra equipment that would be necessary to do it at the pump. The automobile industry, naturally, is adamantly opposed to canisters or any other additional equipment not of their own making.

Lurking in the background, as sort of a fallout between the lead phasedown and the stage II programming, is still another problem. This is the admitted fact that as the lead is eliminated, refineries must use other processes or additives to raise the octane numbers of the gasoline. This leads to more volatile gasolines which could give off even more fumes.

Additional refining, some industry people say, will lead to more butanes in the gasoline. The oil industry has its own volatility standards and some states have already adopted these as their own. But a General Motors survey last spring reportedly estimated 20% of the gasolines already exceed the voluntary volatility standards.

There's also a question of toxicity. And, there's also the alcohol issue. Some companies are using alcohol as an enhancer, others are deriding it as a troublesome, worrisome additive that motorists should steer away from. No doubt much will be said and done by all sides, including the government, in the new year.

All in all, up and down the petroleum industry, it appears that 1985 is shaping up to be a long struggle. NPN

Industry Gets Five-Year Case of 'Datalock'

For a host of larger-than-life reasons, the true scope of petroleum marketing could remain a mystery for the rest of the decade.

A major data-collection snafu in Washington and the industry's downstream jigsaw puzzle which has been scrambled by the continuing oil merger fever are tearing asunder efforts by industry analysts, economists and statisticians to quantify and track many aspects of gasoline and fuel oil marketing.

It may be 1989 or so before the situation rights itself and statistical sanity returns.

The figures are important, especially now with the changes that are taking place in the marketplaces and the disappearance of many companies from national and regional scenes. The figures are used by industry and government alike to measure growth, retrenchment, progress, performance, the impact of the acquisitions, bankruptcies, spinoffs and so on.

There always has been a certain amount of guesswork involved in the compilation of this data and often it has been difficult to reconcile one set of figures put out by one group with those of another.

What's going to make the picture murkier for the next five years or so is the slip-up that occurred in the 1982 compilation of retail businesses. These censuses are made every five years. The Census Bureau relies on the Internal Revenue Service to collect specified data such as confirming figures on the number of service stations, the population of the fuel oil industry, the LPG industry, etc., the dollar value of their businesses and so on.

In 1982, however, the Census Bureau says IRS miscoded some of its data and, as a result, it can only come up with figures on that portion of the industry which has payrolls. Thus, no 1982 count is available on the "moms and pops" and the smaller one-man companies. In other words, no one will be able to have a "universe" figure on service stations, fuel oil dealers, LPG dealers, garages and automotive stores and the host of others involved in retail operations without slide-rule guessing.

Even that's going to be very tough. It used to be that 20% was considered a fair figure for the number of moms and pops in gasoline and fuel oil retailing. No more. These are the ones that have been dropping out like flies, and no one's really sure anymore how many are left. The '82 census was supposed to provide something of a feel on that. But that's out too. Now, everybody has to wait until the next census in 1987—and probably 1989 before the figures are released.

In the interim, the only statistics of value are those of the Commerce Department's Bureau of Industrial Economics. Aided by a questionnaire of his own, a flock of telephone calls to associations, publications and informed individuals, director Andrew Kostecka puts together an annual estimate and forecast on the service station population in January of each year. Hindsight has proven his figures reliable and generally on target.

The merger/acquisition mania also is making mincemeat out of conventional data.

If, for example, you were asked to name the top 10 oil companies, could you do it? Or would you get lost too deciding which is the preferred ranking tool: sales, assets, earnings, number of service stations, number of employees, amount of product sold daily, etc., etc.?

Fortune magazine uses gross sales as its prime benchmark in its 500 top companies listings. So does *Forbes*. *Business Week* uses a segmented, alphabetical approach in its Corporate Scoreboard. *NPN Factbook* uses company assets as its measuring stick. Others use book values and stock quotations.

The fun started when Texaco bought Getty. Media people simply added the basic figures of the two companies and decided (Eureka!) that Texaco had leapfrogged past Mobil to become No. 2 again. Not considered was the fact that when Texaco finally spins off certain Getty properties, as required by law, the ranking figures will change materially.

When Chevron bought Gulf, the media jumped Chevron from fourth or fifth to second—ahead of both Texaco and Mobil. Here again, the actual ranking cannot be resolved until Chevron finishes disposal of the southeastern facilities and other Gulf assets to comply with Federal Trade Commission requirements for approval. When that's finalized, the numbers will change again. Meantime, they're in some sort of limbo.

When Mobil bought Superior, it regained its No. 2 rank in gross sales but not in employed assets. So, there we go again.

The fact that many Wall Streeters and industry experts believe that two and perhaps three fairly large companies will be acquired in 1985 makes the ranking problem all the stickier. Already last month, Mesa Petroleum's T. Boone Pickens and a partner made a long-awaited move with a bid worth nearly $8.8-billion for Phillips Petroleum stock Mesa didn't already control. Even giant Mobil has fallen under the merger specter in recent months.

Probably the only one that's safe and secure is Exxon, which, with $63-billion in assets, $93.4-billion in gross revenues, and $5-billion in annual earnings, is No. 1 in almost everything. Funny thing though: Depending on how the Texaco-Getty and Chevron-Gulf shakeouts go, Exxon may wind up as No. 3 in daily product sales despite its gargantuan size.

There are quirks in marketing too. Southland Corp., basically a C-store chain, became the nation's leading independent marketer of gasoline—until it acquired a refinery when it bought Citgo's marketing facilities from Occidental Petroleum. Thus, it's now a refiner-marketer. Power Test Corp., out on Long Island, N.Y., is awaiting approval of its bid to buy the East Coast Getty network that Texaco must divest. If it gets it—and the going has been rather rough so far—*it* will become the nation's leading independent gasoline marketer.

O&E Briefs

Truck Owners Weigh IRS' 'Odd' Changes in Taxes

Transport owners are due to face slight changes in the way the Internal Revenue Service collects its heavy truck taxes, as part of an IRS tax simplification plan, although dollars-and-cents effects are harder to pin down.

Early last month, the Petroleum Marketers Assn. of America was evaluating the likely affects of the proposal, which remained to be finalized. Barbara Faulkner, PMAA's vice president of policy and legal affairs, says individual marketers will, indeed, be affected, depending upon business size and the number of trucks, but that the only clear-cut effect may be the simplification of tax payment.

Under the proposal, the IRS could eliminate all references to the number of axles per truck in Form 2290. Tax rates instead would be based upon the highest weight at which a vehicle is registered.

Following the tax period ended June 30, 1984, the IRS would levy a $100 tax on trucks weighing between 55,000 and 75,000 lbs. Owners would be required to pay an additional $22 for each additional 1,000 lbs. over 55,000. (The current schedule provides for an additional $3 for each 3,000 lbs. over the 75,000 lb. ceiling.) Under the proposal, vehicles weighing more than 75,000 lbs. would be taxed at the flat rate of $550.

The changes would not affect marketers owning trucks driven less than 5,000 lbs. in a taxable period as the small owner-operator exemption does not expire until June 30, 1985. NPN

Md. Uncorks Tough Law On Underground Tanks

New underground tank regulations banning the installation of unprotected bare steel tanks and calling for mandatory daily inventory reconciliation are scheduled to become law this month in Maryland.

The state's Department of Natural Resources last month was evaluating comments on the regulations which also require tightness testing for tanks more than 15 years old. New tanks would have to be cathodically protected, fiberglass-coated steel or made entirely of fiberglass.

A Department spokesman early last month said that the law's final draft would contain only "minor changes."

Jobber and dealer groups are generally supportive of the measure, with a few objections pertaining to wording, according to a spokesman for the Greater Washington/Maryland Service Station Dealers Assn. NPN

C-Store Briefs

C-Stores to Repeat '84 Success Pattern This Year

Franchised convenience stores, which represent about one-third of the gasoline industry, increased their ranks 4.4% in 1984 and are expected to grow at the same rate in 1985 to a total of 15,998 units.

The money prospects are even more fascinating, however. Gross sales are expected to jump 10.3% in 1984 and 10.3% in 1985.

These are the good tidings contained in the 1983-1985 franchising report which is to be issued later this month by the Bureau of Industrial Economics of the U.S. Department of Commerce.

The entire C-store industry is estimated at 50,000-plus stores, and about half of those sell gasoline. The same ratio is believed to prevail in the franchised division. Southland, the nation's biggest C-store chain, is also the nation's biggest independent gasoline retailer.

The franchised stores are expected to do about $12.3-billion worth of business this year while continuing the $1-billion-a-year growth pattern it has enjoyed during the past several years. NPN

C-Stores: The Growth Continues

	1985	1984	1983	% Chng. '85-'84	% Chng. '84-'83
Total establishments	15,998	15,331	14,683	4.4	4.4
Company-owned	9,109	8,795	8,446	3.6	4.1
Franchisee-owned	6,889	6,536	6,237	5.4	4.8
Total sales of products/ services ($000,000)	$12,309	$11,189	$10,148	10.0	10.3
Company-owned	7,819	7,080	6,389	10.4	10.8
Franchisee-owned	4,490	4,109	3,760	9.3	9.3

Source: U.S. Department of Commerce, Bureau of Industrial Economics, 'Franchising in the Economy 1983-1985,' January 1985.

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